



# OVERVIEW & UPDATE

Presented to the Public Retirement Systems Committee

Donna M. Mueller, CEO & Karl Koch, CIO

November 10, 2011

# Our Mission

A stylized, light blue oak leaf graphic is positioned in the top right corner of the slide, partially overlapping the blue header area.

*To provide a cost-efficient  
statewide retirement plan that helps  
employers recruit and retain employees in  
public service and allows  
members to care for themselves  
in retirement.*

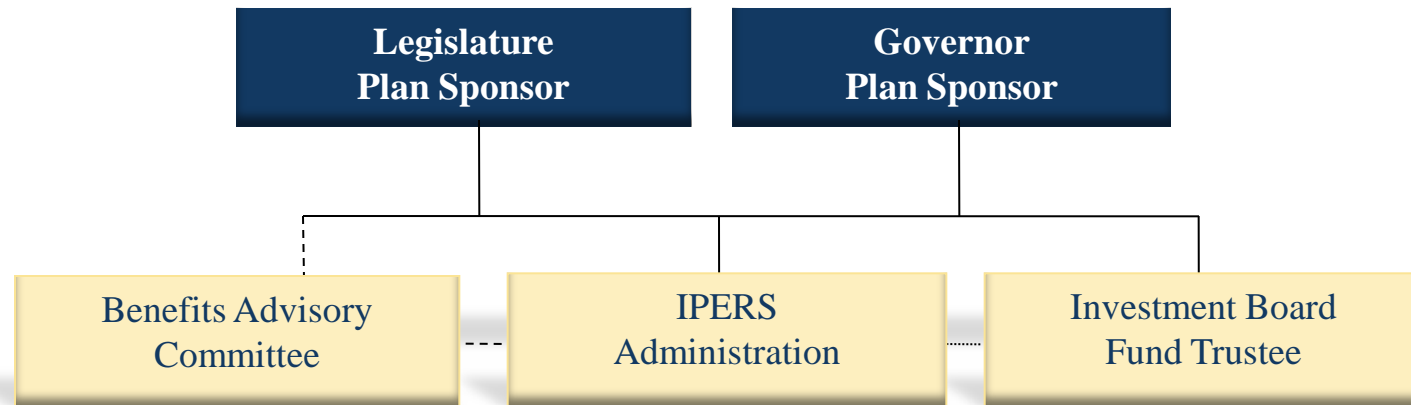
# Core Defined Benefit Plan

*IPERS is  
designed to work  
with  
Social Security  
and personal  
savings.*



- Benefits based on formula
- Multiplier (based on years of service) X Average of highest salary
- Helps retain employees
- Maximum possible wage replacement: up to 65% or 72%
- Average benefit replaces about 44%
- Disability and death benefits
- Lifetime annuity benefit

# Governance



## What is the role of the Plan Sponsor?

Creates plan

Determines participation

Establishes funding

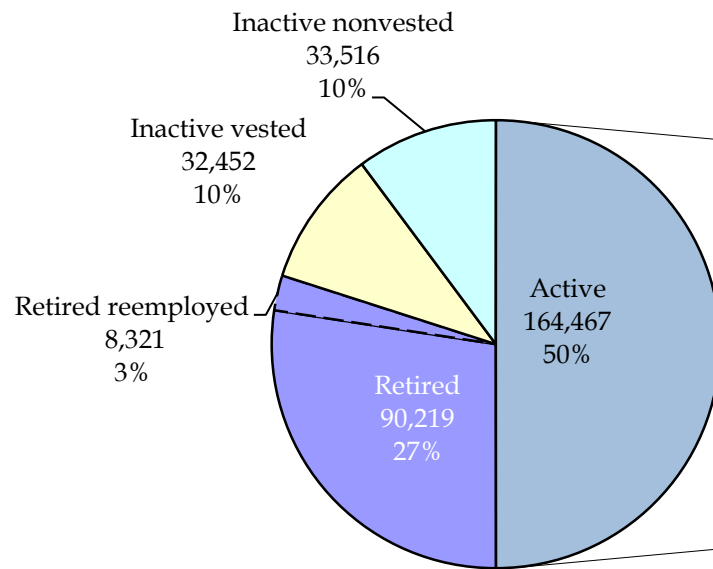
Determines benefits

Monitors performance against plan goals

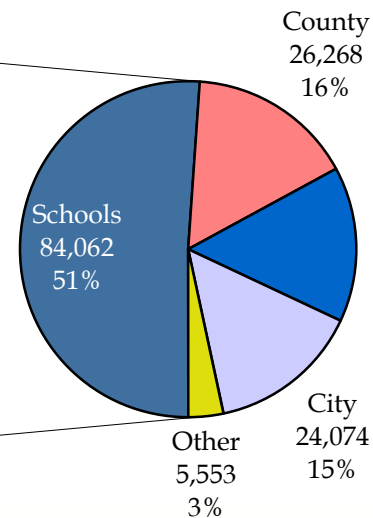
# Large Membership Pool



**Membership Status**



**Active Members Grouped by Major Employers**



Regular members = **95%**  
Special Service members = **5%**  
Sheriffs & Deputies – SSI  
Protection Occupations – SS2

# By the Numbers

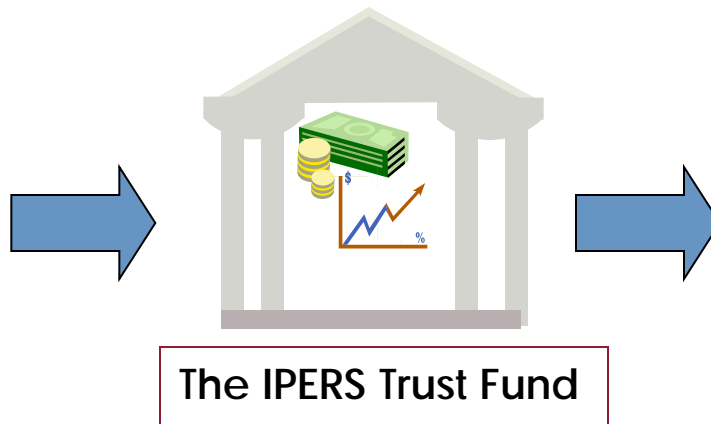


- Nearly 100,000 retirees and beneficiaries
- Nearly \$1.3 billion paid in benefits
- 88% of those payments made to Iowans



# How Does it Work?

Contributions from  
Active Members  
and Employers are  
paid in.



Lifetime Retirement  
Benefits,  
Disability Benefits,  
Death Benefits and  
Refunds are  
paid out.

The IPERS Trust Fund must be used for the exclusive benefit of members and their beneficiaries.

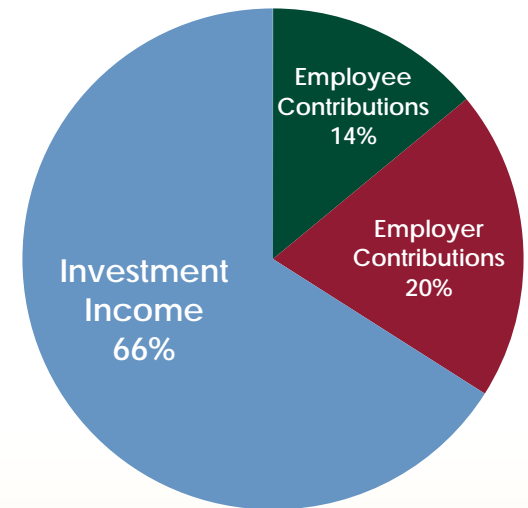


# Prefund – Not Pay-as-you-go

## Prefund benefits



Current employees contribute for their own *future* retirements



FY2012

Membership Class	Member Share	Employer Share	Total
Regular IPERS Members	5.38%	8.07%	13.45%
Sheriffs and Deputies	9.83%	9.83%	19.66%
Protection Occupations	6.65%	9.97%	16.62%



# IPERS Investment Board



David O. Creighton, Sr. – Chairperson

## Board Composition

Six voting members – Governor appointed; Senate confirmed

- Three non-IPERS with investment / financial experience
- Three IPERS members

One voting ex-officio – State Treasurer

Four non-voting members – appointed by House & Senate leaders

- Rep. Mary Mascher & Rep. Dawn Pettengill
- Sen. Steve Kettering & Sen. Matthew McCoy

*IPERS Investment Board serves as trustee and primary fiduciary of the IPERS Trust Fund.*

# Board Roles & Responsibilities



## Adopts Investment Policy & Goal Statement

- Investment risk policy
- Asset allocation policy

## Hires investment managers and consultants

- Monitor investment performance

## Adopts key actuarial assumptions

- Approves contribution rate funding policy
- Hires actuarial consultant

## Evaluate CEO and CIO performance

## Review IPERS' administrative budget

# Current Initiatives



- Reviewing current best practices for managing investment risks
- Goal is to create a better framework for measuring and monitoring investment risks
  - Risk is necessary...  
...but how much is too much?
- Delicate balance between return on capital and preservation of capital

# Investment Performance Summary

*For periods ended June 30*

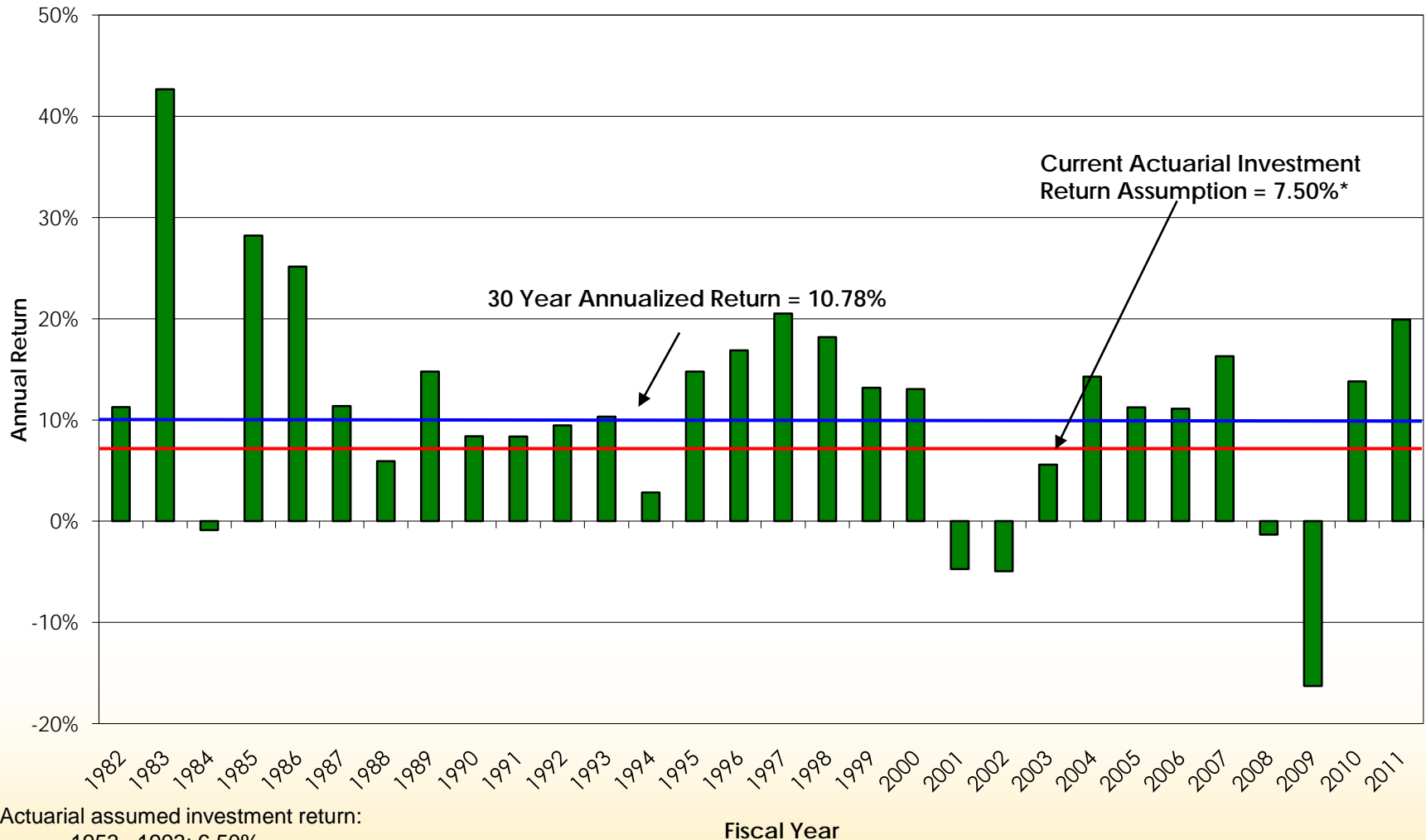
	FY2011	FY2010	FY2009	3 Year	5 Year	10 Year	20 Year
<b>IPERS Portfolio*</b>	19.91%	13.82%	-16.27%	4.55%	5.57%	6.40%	8.77%
<b>Policy Benchmark†</b>	20.15%	16.98%	-14.50%	5.83%	6.03%	6.61%	8.35%
<b>Large Public Fund Median‡</b>	21.46%	13.09%	-18.76%	4.26%	5.05%	5.93%	8.71%

\*Net of fees.

†A benchmark composed of market indices with weightings reflective of IPERS' asset allocation targets.

‡ Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than \$1 billion.

# Investment Returns 1982–2011



\*Actuarial assumed investment return:

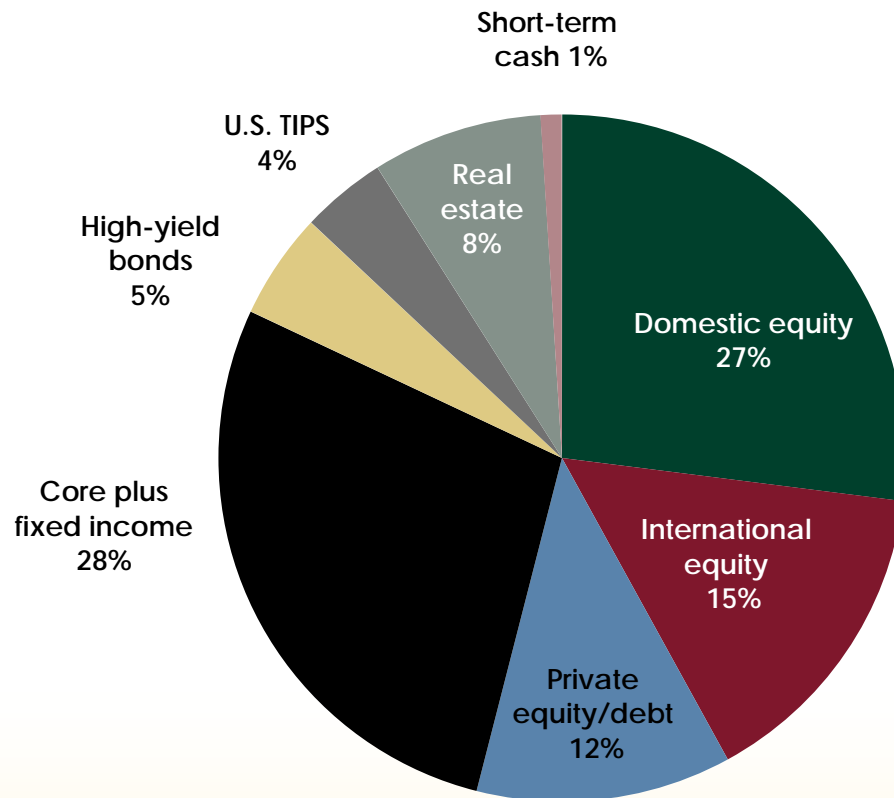
1953 – 1993: 6.50%

1994 – 1995: 6.75%

1996 – present: 7.50%

Periods ended June 30

# Diversified Portfolio



As of June 30, 2011

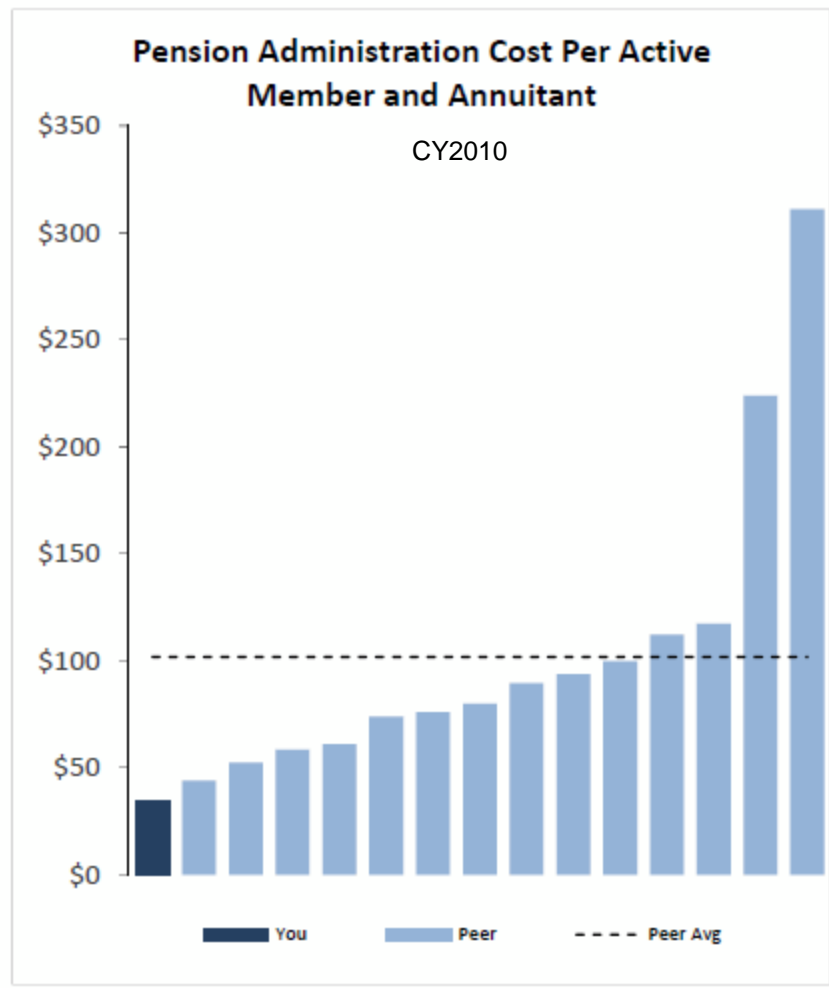
# Trust Fund Value



The IPERS Trust Fund market value  
as of 6/30/11  
is **\$23.2 billion** up from  
\$19.9 billion as of 6/30/10.



# Administration Performance



*IPERS*

*consistently ranks as*

*low cost compared*

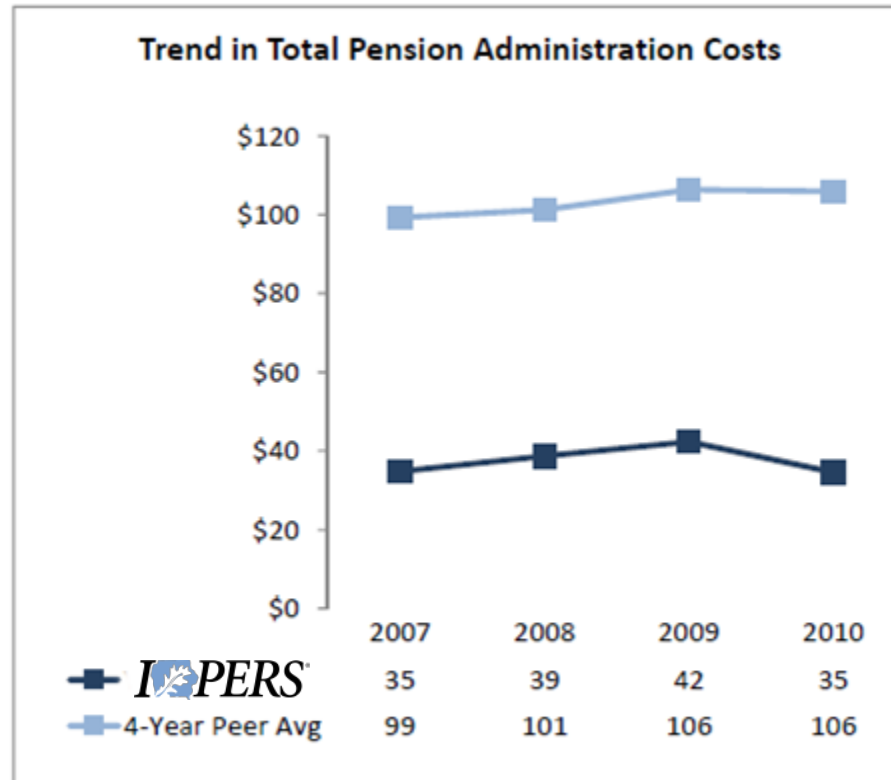
*to its peers,*

*as rated annually*

*by CEM*

*Benchmarking, Inc.*

# Consistent Low Cost



# IPERS' Actuarial Firm



## Cavanaugh Macdonald Consulting

- Independent actuarial consulting firm, practicing entirely in the public sector
- Our senior consultants average over 20 years of experience
- Pat and Brent, co-leads for IPERS, have been the consultants to IPERS for many years



**Patrice Beckham**  
FSA, MAAA, EA, FCA



**Brent Banister, Ph.D.**  
FSA, EA, MAAA, FCA

# Key Funding Equation



## *Actuarial Funding Equation:*

$$\begin{array}{ccc} \text{Contributions + Investments} & = & \text{Benefits + Expenses} \\ \text{(Actuarial Assets)} & & \text{(Actuarial Liabilities)} \end{array}$$

# Actuarial Valuations



- Annual snapshot to see how funding is progressing
- Considers expected future benefit payments
- Uses “smoothed” assets
- Costs are allocated to current member service (“normal cost”) and amortizing any shortfall between assets and expected liability

# Key Valuation Results



## *Preliminary*

(\$Millions)	Regular Membership	Special Service 1	Special Service 2	Total*
Actuarial Liability	\$26,746	\$476	\$1,029	\$28,250
Actuarial Value of Assets	21,187	418	970	22,575
Unfunded Actuarial Liability (UAL)	5,558	57	59	5,675
Funded Ratio	79.2%	87.9%	94.2%	79.9%

\*Totals may not add due to rounding.

Period ended June 30, 2011

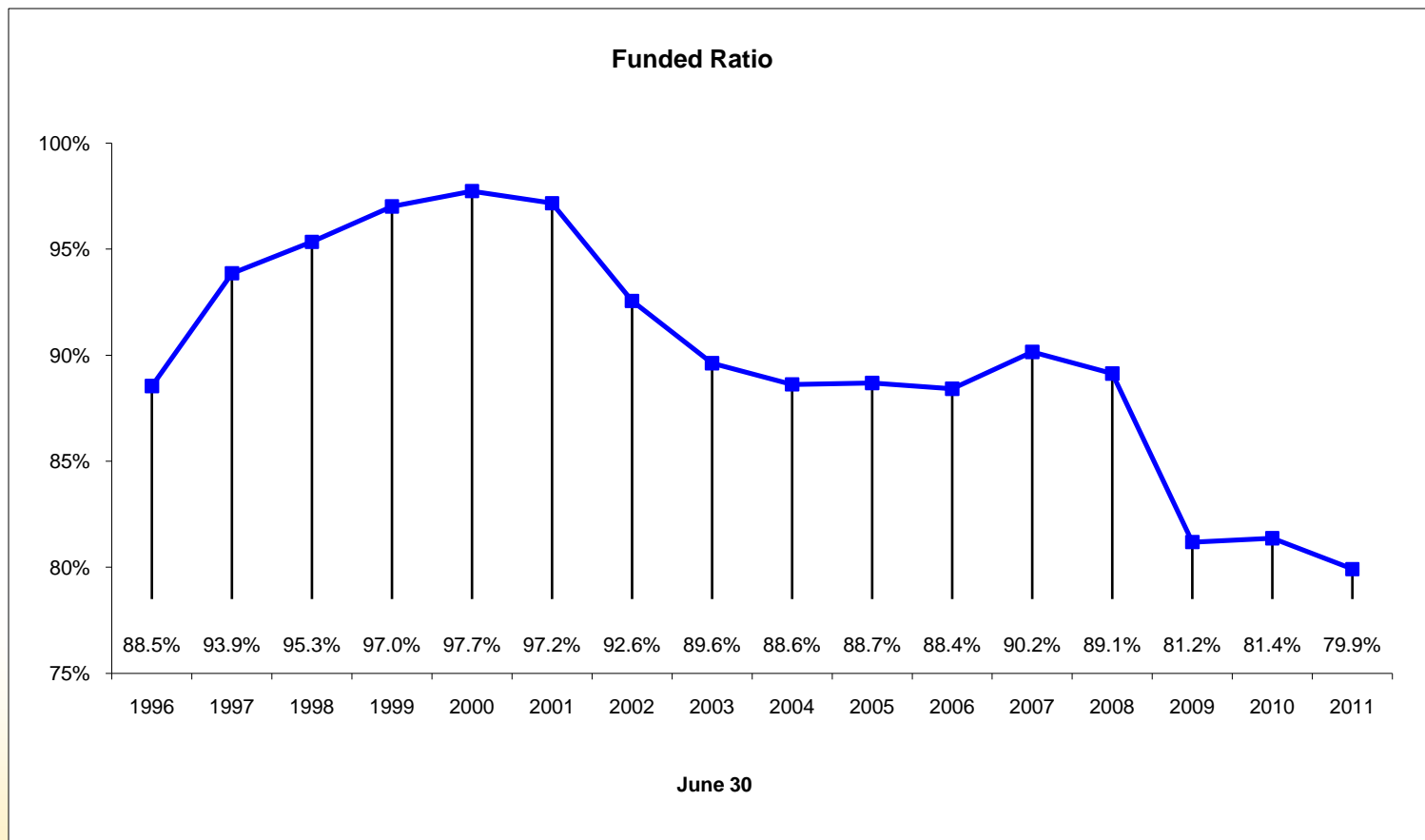
# Funded Ratios By Year



Membership Group	FY2008	FY2009	FY2010	FY2011 preliminary
<b>Regular</b>	88.4%	80.5%	80.8%	79.2%
<b>Special Service 1</b>	101.6%	91.0%	86.8%	87.9%
<b>Special Service 2</b>	105.2%	96.0%	94.4%	94.2%



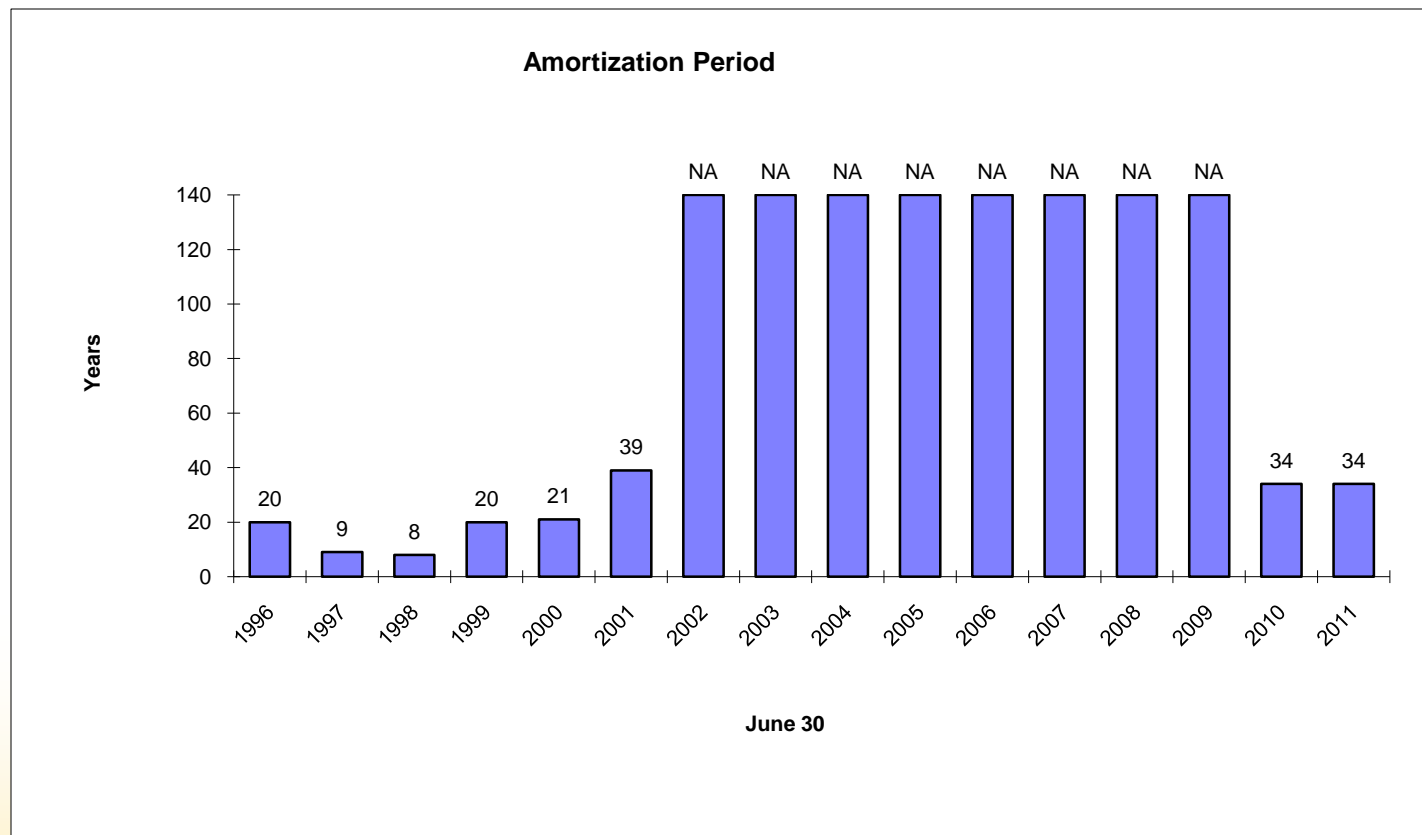
# Funded Ratio: Actuarial Assets/Actuarial Liabilities



# Amortization Period



*Preliminary*



# Contribution Rates



- Components
  - Normal Cost (ongoing cost)
  - Amortization of Unfunded Actuarial Liability (UAL)\*

\*Amortized over 30 years

# Contribution Rates – Regular



*Preliminary*

	June 30, 2011 preliminary	June 30, 2010
Normal Cost Rate	10.16%	9.87%
UAL Payment	4.61%	3.84%
Total Contribution Rate	14.77%	13.71%
Statutory Contribution Rate	14.45%	13.45%
Shortfall	0.32%	0.26%

# Contribution Rates - SS1\*



	June 30, 2011 preliminary	June 30, 2010
Normal Cost Rate	16.59%	16.25%
UAL Payment	3.21%	3.41%
Total Contribution Rate	19.80%	19.66%
Statutory Contribution Rate	19.80%	19.66%
Shortfall	0.00%	0.00%

\* Sheriffs and Deputies

# Contribution Rates – SS2\*



	June 30, 2011 preliminary	June 30, 2010
Normal Cost Rate	16.08%	15.80%
UAL Payment	1.03%	0.82%
Total Contribution Rate	17.11%	16.62%
Statutory Contribution Rate	17.11%	16.62%
Shortfall	0.00%	0.00%

\* Protection Occupations

# Actuary's Comments



- Significant improvement in long term funding in last few years
  - Benefit reductions
  - Ability for contribution rate for regular members to change each year, subject to 1% per year limitation
  - Strong investment performance in FY2010 and FY2011
- Future funding is heavily dependent on investment returns and contributions at full actuarial rate



# Changes to Regular Members

HF 2518



## 7/2011

- Change in Contribution Rates

## 7/2012

- Change in Vesting
- Change in Benefit Formula
- Change in Early Retirement Reduction Percentage
- **New reduction rules apply only to service earned 7/1/12 and later**

# Vesting Rule Change



**Currently through  
6/30/2012**

Vesting after **4**  
years

*(or active member age 55)*

**On July 1, 2012**

Vesting after **7**  
years

*(or active member age 65)*

# High 5 Average Change



Currently through  
6/30/2012

High 3 year  
average

**Starting July 1, 2012**

High 5 year  
average

or high 3 as of 6/30/2012  
*(whichever is higher)*

# Early Retirement Reduction



## Currently

Reduce 3% a year for portion of service through  
**06/30/12**

From nearest eligibility  
(Rule of 88; rule of 62/20 or age 65)

## **July 1, 2012**

Service earned after July 1, 2012, benefits will be reduced 6% per year from age 65.

# Normal Retirement Age



(No early retirement reduction) – **No Change**

**Age 65**

Regardless of service

**Rule of 62/20**

At least age 62 with  
20 or more years of service

**Rule of 88**

Age + Years of service  
= 88 or greater

# Current Issues



1. Retirees Returning to Work
2. Cost-of-Living Adjustments
3. GASB Exposure Drafts

# Rules for Retirees Returning to Work

- **Bona Fide Retirement**
  - Must remain out of IPERS-covered employment for 4 months
- **Earnings Limit**
  - No limit for retirees age 65 and over
  - For members under age 65, the earnings limit is \$30,000
  - IPERS benefit will be reduced by 50 cents for each dollar the member earns over the earnings limit





# Retired/Reemployed Members

## *2005 – 2009 Experience Study (June 2010)*

- Higher normal cost rate (14.65% vs 9.97%)
- Generally low salaries (80% <\$15,000)
- Actuarial liability (AL) for entire group is \$44 M or 0.2% of total AL of \$24,733

# Licensed Health Care Professionals (LHCP)

## *2005 – 2009 Experience Study (June 2010)*

- Higher percentage of LHCP retirees return to work (24% vs 16%)
- Higher salaries vs other retired/reemployed (\$19,963 vs \$9,812)
- Retirement rates higher than other similar members
- Experience before 2006 for LHCP was not tracked
- Cannot equate observed experience with 2006 law change

# Cost-of-Living Adjustments

- **November Dividend**

- Total amount paid in Nov 2011  
\$9,265,060.19
  - Median payment - \$651.55
  - Total payments in FY 2011 - 11,850
  - Base guaranteed
  - No increase since 2001
- Affects only retirees who started receiving monthly benefits before July 1, 1990



# Favorable Experience Dividend

- The FED Payment

- Paid with the January benefit
- Not guaranteed
- Will run out in the next 2-3 years
- Paid from the FED Reserve account, established by a transfer from the IPERS Trust Fund
- By law, cannot replenish until Trust Fund is 100% funded



# FED Transfers & Payments

<b>Fiscal Year</b>	<b>FED Transfer</b>	<b>FED Payments</b>	<b>Net Investment Income</b>	<b>Fiscal Year-End Balance</b>
FY99	229,000,000	(12,152,683)	29,523,325	246,370,642
FY00	264,908,935	(18,797,522)	38,522,151	531,004,206
FY01	108,440,545	(46,219,145)	(22,197,795)	571,027,811
FY02	0	(57,890,007)	(26,518,247)	486,619,557
FY03	0	(25,570,783)	26,210,587	487,259,361
FY04	0	(31,067,817)	67,497,454	523,688,998
FY05	0	(37,178,186)	56,650,354	543,161,166
FY06	0	(43,988,077)	58,021,055	557,194,144
FY07	0	(51,378,132)	86,964,919	592,780,931
FY08	0	(59,512,875)	(8,301,373)	524,966,683
FY09	0	(68,463,353)	(85,779,297)	370,724,033
FY10	0	(78,080,966)	46,466,138	339,109,205
*FY11	0	(88,557,286)	63,794,588	314,346,507
*FY12	0	(99,263,800)	23,128,956	238,211,663
<b>Totals:</b>	<b>\$ 602,349,480</b>	<b>\$ (718,120,631)</b>	<b>\$ 353,982,815</b>	

\*estimate

# GASB Exposure Drafts



**GASB** = Governmental Accounting Standards Board

- Breaks the link between actuarial funding and financial accounting
- Currently, employer's balance sheet and income statement reports on payment of contractually required contributions
- Proposal would report a share of plan's net pension liability (similar to unfunded actuarial liability) on the employer's balance sheet

# Key Implications of Exposure Drafts

- New and variable balance sheet liability
- Contributions will not match GASB expense
- Questions remain as to allocation of liability for cost-sharing multiple employer plans like IPERS

*Fiscal Year beginning after June 15, 2013 – potential implementation date for IPERS and its employers.*

# Benefits Advisory Committee



Len Cockman – Chairperson

## Committee Composition

Four voting members representing employers

- Counties, Cities & Schools
- Director of Department of Administrative Services

Four voting members representing IPERS members

One voting public member

Five non-voting members representing constituent groups



# Committee Responsibilities



- Advise plan sponsor on plan design
- Review benefit administration
- Review IPERS' administrative budget
- Evaluate CEO and CIO performance

# Ongoing Initiatives



- Engage in strategic planning process
- Monitor impact of recent benefit changes
- Review funding status
- Manage to IPERS' mission

# Our Mission



*To provide a cost-efficient  
statewide retirement plan that helps  
employers recruit and retain employees in  
public service and allows  
members to care for themselves  
in retirement.*

# Contact Us



The purpose of this presentation is to provide a brief overview of IPERS. For additional information, feel free to contact us or visit our website at [www.ipers.org](http://www.ipers.org)

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